MEGASTAR DEVELOPMENT CORP.

CONDENSED INTERIM FINANCIAL STATEMENTS

SIX MONTHS ENDED AUGUST 31, 2012

EXPRESSED IN CANADIAN DOLLARS

(Unaudited – Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor BDO CANADA LLP has not performed a review of these condensed interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim financial statements by an entity's auditor.

October 24, 2012

MEGASTAR DEVELOPMENT CORP.

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

(EXPRESSED IN CANADIAN DOLLARS - UNAUDITED)

	Notes		August 31 2012		February 29 2012 (audited)
ASSETS					
Current assets					
Cash and cash equivalent	4	$	1,251,114	$	389,758
Marketable securities	6		75,800		156,325
Taxes recoverable	5		12,710		29,630
Prepaid expenses and deposits			10,805		6,067
Total current assets			1,350,429		581,780
Non-current assets					
Equipment	7		1,923		2,263
Exploration and evaluation assets	8		575,281		586,564
Total non-current assets			577,204		588,827
TOTAL ASSETS		$	1,927,633	$	1,170,607
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		$	458,791	$	490,725
Due to related parties	13		20,850		15,850
Total liabilities			479,641		506,575
Shareholders' equity					
Share capital	9		5,106,728		4,133,551
Reserves	10		296,490		225,601
Accumulated other comprehensive loss			(165,450)		(84,925)
Deficit			(3,789,776)		(3,610,195)
Total shareholders' equity			1,447,992		664,032
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$	1,927,633	$	1,170,607

Nature of operations and going concern uncertainty (Note 1)
Commitments and contingencies (Note 14)

Approved and authorized for issue on behalf of The Board on October 24, 2012

"Dusan Berka" Director
Dusan Berka

"Gary Musil" Director
Gary Musil

The accompanying notes are an integral part of these financial statements.

MEGASTAR DEVELOPMENT CORP.
CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPEREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS - UNAUDITED)

	Notes	Three Months Ended August 31, 2012	Three Months Ended August 31, 2011	Six Months Ended August 31, 2012	Six Months Ended August 31, 2011
Expenses					
Accounting and audit fees	12	$ 1,422	$ 8,160	$ 5,122	$ 22,326
Amortization		197	197	339	362
Bank charges and interest		31	1,063	260	1,641
Consulting fees		31,000	18,750	33,600	21,000
Filing fees		1,037	6,194	8,037	8,234
Insurance		2,900	3,534	6,417	7,087
Investor relations and promotion		-	-	-	156
Legal fees		500	12,861	237	30,186
Management fees	13	25,500	41,000	51,000	73,500
Office, telephone and miscellaneous		1,182	2,167	1,836	4,108
Rent	13	8,495	3,750	14,495	7,500
Shareholder information		588	1,719	1,131	3,646
Share-based payments	9 and 13	18,316	115,346	18,316	115,346
Transfer agent fees		861	1,855	1,614	5,741
Travel		2,031	1,555	5,571	4,656
Loss before other income (expenses)		(94,060)	(218,151)	(147,975)	(305,489)
Other income (expenses):					
Loss on share distribution		-	-	-	(700,000)
Impairment for exploration and evaluation interest		(34,364)	-	(34,364)	-
Interest income		2,510	-	2,758	-
Net loss for the period		(125,914)	(218,151)	(179,581)	(1,005,489)
Other comprehensive loss					
Unrealized loss on marketable securities, net of tax		(16,450)	(47,700)	(80,525)	(117,050)
Total comprehensive loss for the period		(142,364)	(265,851)	(260,106)	(1,122,539)
Weighted average number of common shares outstanding (basic and diluted)		28,677,151	13,797,037	23,236,933	12,464,422
Basic and diluted net loss per share		$ (0.004)	$ (0.02)	$ (0.01)	$ (0.08)

The accompanying notes are an integral part of these financial statements

MEGASTAR DEVELOPMENT CORP.

CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

(EXPRESSED IN CANADIAN DOLLARS - UNAUDITED)

	Number of shares issued	Amount	Share Capital Distribution	Warrant reverse	Share based payments reserve	Unrealized marketable securities gain (loss)	Deficit	Total
Balance, February 28, 2011	10,531,807	$ 9,046,836	$ (6,300,000)	$ -	$ 122,713	$ 88,950	$ (2,499,934)	$ 458,565
Comprehensive loss:								
Net loss for the period	-	-	-	-	-	-	(1,005,489)	(1,005,489)
Unrealized loss on marketable securities	-	-	-	-	-	(117,050)	-	(117,050)
Loss on share distribution	-	-	700,000	-	-	-	-	700,000
	10,531,807	9,046,836	(5,600,000)	-	122,713	(28,100)	(3,505,423)	36,026
Shares issued for cash - private placements	6,715,265	671,526	-	-	-	-	-	671,526
Shares issued for finder's fee	437,144	43,714	-	-	-	-	-	43,714
Share issuance cost	-	(113,430)	-	69,716	-	-	-	(43,714)
Fair value of options granted	-	-	-	-	187,808	-	-	187,808
Fair value of options cancelled	-	-	-	-	(72,462)	-	-	(72,462)
Balance, August 31, 2011	17,684,216	9,648,646	(5,600,000)	69,716	238,059	(28,100)	(3,505,423)	822,898
Balance, February 29, 2012	17,796,716	4,133,551	-	-	225,601	(84,925)	(3,610,195)	664,032
Comprehensive loss:								
Net loss for the period	-	-	-	-	-	-	(179,581)	(179,581)
Unrealized loss on marketable securities	-	-	-	-	-	(80,525)	-	(80,525)
Shares issued	11,000,000	1,100,000	-	-	-	-	-	1,100,000
Fair value of warrant granted	-	(52,573)	-	52,573	-	-	-	-
Fair value of options granted	-	-	-	-	18,316	-	-	18,316
Share issuance cost	-	(74,250)	-	-	-	-	-	(74,250)
Balance, August 31, 2012	28,796,716	$ 5,106,728	$ -	$ 52,573	$ 243,917	$ (165,450)	$ (3,789,776)	$ 1,447,992

The accompanying notes are an integral part of these financial statements.

MEGASTAR DEVELOPMENT CORP.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS - UNAUDITED)

	Three Months Ended		Six Months Ended	
	August 31, 2012	August 31, 2011	August 31, 2012	August 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	$ (125,914)	$ (218,151)	$ (179,581)	$ (1,005,489)
Adjustments to reconcile loss to net cash used in operating activities:				
Amortization	197	197	339	362
Interest income	(2,510)	-	(2,758)	-
Loss on share capital distribution	-	-	-	700,000
Impairment for exploration and evaluation interest	34,364	-	34,364	-
Share-based payments	18,316	115,346	18,316	115,346
	(75,547)	(102,608)	(129,320)	(189,781)
Net changes in non-cash working capital accounts				
Decrease (increase) in taxes recoverable	(5,548)	4,054	16,920	(9,941)
Decrease in prepaid expenses and other current assets	(3,775)	(10,530)	(4,738)	(7,052)
Increase (decrease) in accounts payable and accrued liabilities	(15,344)	(65,871)	(40,519)	(36,635)
Cash used in operating activities	(100,214)	(174,955)	(157,657)	(243,409)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	2,510	-	2,758	-
Purchase of equipment	-	(851)	-	(851)
Evaluation and exploration expenditures	(12,193)	14,455	(14,495)	5,404
Increase (decrease) in due to related parties	4,000	(59,140)	5,000	(23,000)
Cash used in investing activities	(5,683)	(45,536)	(6,737)	(18,447)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of common shares, net of share issuance cost	1,025,750	671,526	1,025,750	671,526
Obligation to issue shares	(560,000)	-	-	-
Cash provided by financing activities	465,750	671,526	1,025,750	671,526
Net change in cash	359,853	451,035	861,356	409,670
Cash, beginning balance of the period	891,261	79,324	389,758	120,689
Cash, ending balance of the period	$ 1,251,114	$ 530,359	$ 1,251,114	$ 530,359

Supplemental disclosure with respect to cash flows (Note 14)

The accompanying notes are an integral part of these financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

The Company, incorporated in British Columbia on September 24, 1984, is an exploration stage public Company listed on the TSX Venture Exchange and the Frankfurt Stock Exchange. The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves and confirmation of the Company's interest in the underlying properties, the ability of the Company to obtain necessary financing to satisfy the expenditure requirements under mineral property agreements and to complete the development of the properties, and upon future profitable production or the sale thereof.

The Company is listed as a Tier 2 mining exploration issuer. The Company operates in a single business segment focusing on mineral exploration in Quebec and British Columbia, Canada. At August 31, 2012, the Company had no revenue producing operations and accumulated deficit of $3,789,776 (February 29, 2012 - $3,610,195) since inception. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

The head office, principal address of the Company is Suite 1130, 789 West Pender Street, Vancouver, BC Canada V6C 1H2. The Company's registered and records address is at the Corporate Solicitor's office, McMillan LLP, Barristers and Solicitors, 1500 Royal Centre – 1055 W. Georgia Street, Vancouver, BC, V6E 4N7.

These condensed interim financial statements ("financial statements") have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The operations of the Company were primarily funded by the issuance of share capital. The issuance of additional equity securities by the Company may result in significant dilution to the equity interests of current shareholders. The Company's future capital requirements will depend on many factors, including operating costs, the current capital market environment and global market conditions.

2. BASIS OF PRESENTATION

Statement of compliance and transition to International Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with IAS 34 Interim Financial Reporting.

The financial statements of the Company should be read in conjunction with the Company's 2012 annual financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared using accounting policies consistent with those used in the Company's 2012 annual financial statements.

Basis of measurement

These financial statements have been prepared on an accrual basis except for cash flow information and are based on historical costs, as modified by the revaluation of available for sale financial assets. These financial statements are presented in Canadian dollars, which is also the Company's functional currency, unless otherwise noted.

Approval of the unaudited condensed consolidated interim financial statements

The financial statements of the Company for the six months ended August 31, 2012, were authorized for issue on October 24, 2012 by the Board of Directors of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Areas requiring a significant degree of estimation and judgment relate to the determination of the useful lives of property and equipment, the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments and share-based payments and other equity-based payments, the recognition and valuation of provisions for restoration and environment liabilities, and the recoverability and measurement of deferred tax assets. Actual results may differ from those estimates and judgments.

Accounting standards, amendments and interpretations not yet effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2011 or later years. None of these are expected to have a significant effect on the financial statements.

The following standards and interpretations have been issued but are not yet effective:

IFRS 9 Financial Instruments – IFRS 9 is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". This new standard is effective for annual periods beginning on or after January 1, 2015. The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the financial statements.

IFRS 10 *Consolidated Financial Statements* - IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements.* The Company is yet to assess the full impact of IFRS 10 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

IFRS 11 *Joint Arrangements* - IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. The Company is yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

IFRS 12 *Disclosure of Interests in Other Entities* - IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The Company is yet to assess the full impact of IFRS 12 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

(EXPRESSED IN CANADIAN DOLLARS - UNAUDITED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

IFRS 13 *Fair Value Measurement* - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Company is yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

IFRS 20 Stripping Costs in the Production Phase of a Surface Mine - In International Financial Reporting Interpretations Committee ("IFRIC") 20, the IFRS Interpretations Committee sets out principles for the recognition of production stripping costs in the balance sheet. The interpretation recognizes that some production stripping in surface mining activity will benefit production in future periods and sets out criteria for capitalizing such costs. While the Company is not yet in the production phase, the Company is currently assessing the future impact of this interpretation.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

4. CASH AND CASH EQUIVALENT

	August 31, 2012	February 29, 2012
Cash at bank	$ 387,604	$ 389,758
Term deposits	863,510	-
Cash and cash equivalents	$ 1,251,114	$ 389,758

The term deposit is a 101 day term deposit with 1.40% annual interest rate.

5. TAXES RECOVERABLE

	August 31, 2012	February 29, 2012
Taxes recoverable	12,710	29,630

As at August 31, 2012, taxes recoverable consisted of $11,819 of Harmonized Sales Tax receivable and $891 of Quebec Sales Tax receivable.

As at February 29, 2012, taxes recoverable consisted of $8,214 of Harmonized Sales Tax receivable and $21,416 of Quebec Sales Tax receivable.

(EXPRESSED IN CANADIAN DOLLARS - UNAUDITED)

6. MARKETABLE SECURITIES

	August 31, 2012		February 29, 2012	
	Fair Value	Cost	Fair Value	Cost
Canada Zinc Metals Corp.	$ 32,300	$ 104,975	$ 44,200	$ 104,975
Eloro Resources Ltd.	15,000	56,250	35,625	56,250
Rio Grande Mining Corp.	28,500	22,500	76,500	22,500
	$ 75,800	$ 183,725	$ 156,325	$ 183,725

Pursuant to an option agreement on the Company's interest in the Sedex Zinc Property in BC with Canada Zinc Metals Corp. (previously Mantle Resources Inc.), the Company received 100,000 shares of Canada Zinc Metals Corp. as partial consideration for Canada Zinc Metals Corp. earning up to 60% interest in the Sedex Zinc Property in BC. The agreement was mutually terminated after Feb 28, 2008. During the year ended February 28, 2011, the Company disposed of 15,000 of the shares.

Pursuant to an option agreement on the Company's interest in the Simkar Property in Quebec with Eloro Resources Ltd., the Company received 187,500 shares of Eloro Resources Ltd. to earn up to 50% interest in the Simkar Property in Quebec.

An additional 187,500 shares was received from Eloro Resources Ltd. during the year ended February 28, 2011. On August 12, 2011, the shares of Eloro Resources Ltd. were rolled back 4:1. The number of shares of Eloro received reflects the 4:1 rollback.

Pursuant to an option agreement on the Company's interest in the Sedex Zinc Property in BC with Rio Grande Mining Corp., the Company received 100,000 shares of Rio Grande Mining Corp. as partial consideration for Rio Grande Mining Corp. earning up to 60% interest in the Sedex Zinc Property in BC. An additional 50,000 shares was received from Rio Grande Mining Corp. and then all shares were split on the basis of one old share for two new shares in the year 2011.

As of August 31, 2012, the fair market value of the marketable securities was $75,800 (February 29, 2012 - $156,325): Canada Zinc Metals Corp. $0.38 per share (February 29, 20121 - $0.52); Eloro Resources Ltd. $0.04 per share (February 29, 2012 - $0.10); Rio Grande Mining Corp. $0.10 per share (February 29, 2012 - $0.225) based on the closing bid price of shares on the TSX Venture Exchange.

During the six months ended August 31, 2012, the Company recorded $80,525 as an unrealized loss (August 31, 2011 – unrealized loss of $117,050) to the market values. The unrealized loss of marketable securities is reflected in other comprehensive loss during the reporting period.

(EXPRESSED IN CANADIAN DOLLARS - UNAUDITED)

7. EQUIPMENT

		Office equipment
Cost:		
At February 29, 2012	$	3,439
Additions		-
At August 31, 2012	$	3,439
Depreciation:		
At February 29, 2012		1,176
Charges for the period		340
At August 31, 2012		1,516
Net book value:		
At February 29, 2012		2,263
At August 31, 2012	$	1,923

		Office equipment
Cost:		
At March 1, 2011	$	2,588
Additions		851
At February 29, 2012	$	3,439
Depreciation:		
At March 1, 2010		389
Charge for the period		787
At February 29, 2012		1,176
Net book value:		
At March 1, 2010		2,199
At February 29, 2012	$	2,263

8. EXPLORATION AND EVALUATION ASSETS

The Company has capitalized the following acquisition and exploration costs on its mineral properties.

		Sedex Zinc Property British Columbia, Canada		Ralleau Project Quebec, Canada		Total
Balance of costs						
Total acquisition costs	$	235,000	$	96,543	$	331,543
Total exploration advance		(183,500)		-		(183,500)
Total cost recovery		(112,000)		(101,120)		(112,000)
Total deferred exploration costs		83,135		568,506		651,641
Balance, February 29, 2012		22,635		563,929		586,564
Exploration costs:						
Reports and field		-		358		358
Taxes and assessment fees		22,723		-		22,723
Deferred exploration costs		22,723		358		23,081
Impairment charge		(34,364)		-		(34,364)
Total acquisition costs		235,000		96,543		331,543
Total exploration advance		(183,500)		-		(183,500)
Total cost recovery		(112,000)		(101,120)		(213,120)
Total deferred exploration costs		105,858		568,864		674,722
Total cumulative impairment charge		(34,364)		-		(34,364)
Balance, August 31, 2012	$	10,994	$	564,287	$	575,281

(EXPRESSED IN CANADIAN DOLLARS - UNAUDITED)

8. EXPLORATION AND EVALUATION ASSETS (cont'd...)

	Sedex Zinc Property British Columbia, Canada	Ralleau Project Quebec, Canada	Total
Balance of costs			
Total acquisition costs	$ 235,000	$ 88,222	$ 323,222
Total exploration advance	(183,500)	-	(183,500)
Total cost recovery	(72,000)	-	(72,000)
Total deferred exploration costs	68,258	564,706	632,964
Balance, February 28, 2011	47,758	652,928	700,686
Acquisition costs			
Cash	-	8,321	8,321
Acquisition costs	-	8,321	8,321
Exploration costs			
Reports and field	500	3,800	4,300
Taxes and assessment fees	14,377	-	14,377
Deferred exploration costs	14,877	3,800	18,677
Cost recovery			
Quebec mining tax credit received	-	(101,120)	(101,120)
Option payments received			
Shares	(40,000)	-	(40,000)
Cost recovery	(40,000)	(101,120)	(141,120)
Balance of costs			
Total acquisition costs	235,000	96,543	331,543
Total exploration advance	(183,500)	-	(183,500)
Total cost recovery	(112,000)	(101,120)	(213,120)
Total deferred exploration costs	83,135	568,506	651,641
Balance, February 29, 2012	$ 22,635	$ 563,929	$ 586,564

a) Ralleau Project, Quebec, Canada

The Company has a 100% interest in 220 mineral claims situated in the Quevillon area of Quebec that are subject to a 2% net smelter royalty return of which 1% can be purchased by the Company at any time for $1,000,000.

b) Sedex Zinc Property, British Columbia, Canada

At February 28, 2011, the Company had a 100% interest in 33 mineral claims located in the Omineca Mining Division, BC. The claims are subject to a 2% net smelter returns royalty of which the Company can purchase 1% for $1,000,000.

Pursuant to an agreement dated November 5, 2008 and amended January 19, 2012, the Company granted an option to Rio Grande Mining Corp. ("Rio Grande") whereby Rio Grande could earn up to a 60% interest in the claims.

8. EXPLORATION AND EVALUATION ASSETS (cont'd...)

For Rio Grande Mining Corp to earn a 60% interest in the Sedex claims, it must pay to the Company cash of $89,055,200,000 common shares and incur $800,000 in exploration expenditures as follows:

- Pay $10,000 to the Company (received) within 10 days of execution of the letter of intent;
- Incur minimum exploration expenditures of $100,000 on or before January 31, 2009;
- Pay $17,500 to the Company (received) and 50,000 pre-split common shares (received) which were valued at their fair value of $22,500, on or before the earlier of (i) 7 days after the listing date, or (ii) May 31, 2010;
- Pay $20,000 to the Company (received) and 50,000 pre-split common shares (received) which were valued at their fair market value of $12,000, incur minimum exploration expenditures of $200,000 on or before the earlier of (i) 12 months after the listing date, or (ii) July 31, 2010;
- Pay $16,555 to the Company (received) on June 1, 2011;
- Issue 100,000 post-split common shares (received) which were valued at their fair market value of $40,000 within five days of full execution of the Amending Letter Agreement dated January 19, 2012;
- Pay $25,000 to the Company (outstanding) and incur minimum exploration expenditures of $500,000 on or before January 31, 2013.

During the year ended February 29, 2012, the Company received the total cash payments of $64,055 and 300,000 post-split common shares from Rio Grande Mining Corp. (On December 1, 2010, the shares received were split 2:1).

The Company abandoned 8 mineral claims during the year ended February 29, 2012, and abandoned 15 mineral claims during the six months ended August 31, 2012, leaving the Company with a 100% interest in 10 mineral claims, totaling 5,296 hectares. Pursuant to the forfeiture of claims and management's assessment of impairment, management recorded an impairment charge of $34,364 against the property at August 31, 2012.

On August 2, 2012, the Company entered into a letter of intent with Yuntone Capital Corp. ("Yuntone"). The Company granted an option to Yuntone to purchase up to an undivided 60% interest in Sedex claims. For Yuntone to earn a 60% interest in the Sedex claims, it had to pay to the Company cash of $50,000 (received $25,000 from Yuntone subsequent to August 31, 2012), issue 250,000 common shares, and incur $500,000 in exploration expenditures.

Subsequent to the six months ended August 31, 2012, the letter of intent was terminated by mutual consent and shall have no further force or effect. The Company returned the payment of $25,000 to Yuntone on October 9, 2012.

9. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Issuance of share capital

<u>During the six months ended August 31, 2012</u>,

On June 5, 2012, the Company closed a non-brokered private placement of 11,000,000 units at a price of $0.10 per unit for gross proceeds of $1,100,000. These 11,000,000 units were issued as non-flow through units consisting of one common share and one transferrable share purchase warrant. The share purchase warrant entitles the holder to purchase one additional common share at a price of $0.135 per share for a period of 24 months.

9. SHARE CAPITAL (cont'd...)

The Company paid a total of $74,250 in finder's fee and issued a total of 742,500 share purchase warrants to such finder. Each finder's warrant is exercisable into one common share of the Company for two years at a price of $0.135 per share.

At August 31, 2012, there were 28,796,716 (February 29, 2012 – 17,796,716) issued and fully paid common shares.

During the year ended February 29, 2012,

a) On May 4, 2011, the Company's issued capital was altered by consolidating on a 4:1 basis for all of the 42,127,233 issued common shares without par value into 10,531,807 common shares without par value. The basic and diluted loss per share figures and the weighted average number of shares outstanding have been retroactively restated on the statements of operations. The common share consolidation was approved by the shareholders at the Company's Special Meeting held on December 20, 2010.

b) On July 22, 2011, the Company closed the non-brokered private placement and raised $671,527. A total of 6,715,265 units at a price of $0.10 per unit were issued. Each unit consists of one common share and one transferable share purchase warrant. Each warrant entitled the holder to purchase one additional common share of the Company at a price of $0.135 per share until July 20, 2013. The Company paid share issuance costs of 437,144 units under the same terms as the units above representing 6.5% of the total proceeds raised under the private placement financing. Directors, officers, and insiders of the company subscribed for $37,500 of the offering, representing 375,000 units or 5.6% of the above financing. All shares issued under the offering were subject to a four-month hold period expiring November 21, 2011.

c) Received $15,188 as a result of 112,500 warrants being exercised at $0.135 per share.

Share capital distribution

Pursuant to the Asset Purchase Agreement with Eloro, the Company agreed to distribute the 70,000,000 shares of Eloro to its shareholders on a pro rata basis which were valued at $6,300,000 at February 28, 2011 based on the trading price of the shares on that date. During year ended February 29, 2012, the Company cancelled all of its issued and outstanding shares and immediately reissued new shares in the same amount together with the Eloro shares, which were distributed at a ratio of 1.6616329869 Eloro shares for each share of the Company held by the shareholders of record on January 7, 2011. The share distribution was settled on March 17, 2011, at which date the Eloro shares were valued at $5,600,000.

The $700,000 recorded as a loss relates to the difference between the Eloro shares recorded on the date of the share capital distribution payable and the fair market value of the Eloro shares on the date of distribution.

Share Options

The Company adopted a share option plan (the "Share Option Plan") under which it may grant options to employees, officers, directors, consultants for up to 10% of the issued and outstanding common shares. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee in a twelve-month period is limited to 5% of the issued shares of the Company. Under the plan, the exercise price of an option may not be less than the discounted market price. The options can be granted for a maximum term of 5 years and vest at the discretion of the board of directors.

For share options granted to employees, directors, and consultants, the Company recognizes as an expense, the estimated fair value of the share options granted. The fair value of each share option granted was estimated on the date of grant using the Black-Scholes option-pricing model.

(EXPRESSED IN CANADIAN DOLLARS - UNAUDITED)

9. SHARE CAPITAL (cont'd...)

Share options (cont'd...)

During the six months ended August 31, 2012,

On August 1, 2012, the Company granted its directors, officers, and consultant options to purchase 300,000 common shares at a price of $0.10 per share for a period of two years. The fair value of share options granted On August 1, 2012 was estimated at the grant date using the Black – Scholes option pricing model with estimated volatility of 138.41%, risk free rate of 1.15%, annual rate of dividends of zero and expected life of 2 years. With these assumptions, the fair value of options was determined to be $12,930 which has been expensed with a corresponding credit to share-based payment reserve.

On August 22, 2012, the Company granted its CFO options to purchase 125,000 common shares at a price of $0.10 per share for a period of two years. The fair value of share options granted on August 22, 2012 was estimated at the grant date using the Black – Scholes option pricing model with estimated volatility of 138.41%, risk free rate of 1.15%, annual rate of dividends of zero and expected life of 2 years. With these assumptions, the fair value of options was determined to be $5,386 which has been expensed with a corresponding credit to share-based payment reserve.

During the year ended February 29, 2012:

On July 22, 2011, the Company granted its directors, officers, and consultants' options to purchase 1,050,000 common shares at a price of $0.25 per share for a period of five years. The fair value of share options granted July 22, 2011 was estimated at the grant date using the Black – Scholes option pricing model with estimated volatility of 131.42%, risk free rate of 1.68%, annual rate of dividends of zero and expected life of 5 years. With these assumptions, the fair value of options was determined to be $175,350 which has been expensed with a corresponding credit to share-based payment reserve.

A summary of share options outstanding as at August 31, 2012 is as follows:

	Granted date	Number of Options	Weighted Average Exercise Price $	Weighted Average Number of Years to Expiry
Balance - February 28, 2011		316,250	0.52	1.53
Options forfeited/expired		(160,000)	0.58	
Options granted	July 22, 2011	1,050,000	0.25	
Balance - February 29, 2012		1,206,250	0.28	3.64
Options granted - August 1, 2012		300,000	0.10	
Options granted - August 22, 2012		125,000	0.10	
Balance - August 31, 2012		1,631,250	0.23	3.04

(EXPRESSED IN CANADIAN DOLLARS - UNAUDITED)

9. SHARE CAPITAL (cont'd...)

Share options (cont'd...)

As at August 31, 2012, the following incentive share options are outstanding and exercisable:

Number of Options	Exercise Price	Expiry Date	
62,500	$ 0.40	October 23, 2012	Expired subsequently
93,750	0.52	March 4, 2013	
1,050,000	0.25	July 22, 2016	
300,000	0.10	August 1, 2014	
125,000	0.10	August 22, 2014	
1,631,250			

Warrants

A summary of changes in warrants outstanding as at August 31, 2012 is as follows:

	Warrants outstanding	Weighted average exercise price -$-	Weighted average number of year to expiry
Balance, February 28, 2011	375,000	0.40	0.49
Warrants expired	(375,000)		
Warrants exercised	(112,500)		
Warrants granted with private placement	6,715,265	0.135	1.14
Finders fee warrants	437,144	0.135	1.14
Balance, February 29, 2012	7,039,909	0.135	1.14
Warrants granted with private placement	11,000,000	0.135	
Finders fee warrants	742,500	0.135	
Balance, August 31, 2012	18,782,409	0.135	1.43

Warrants (cont'd...)

Warrants have been adjusted to reflect 4 to 1 consolidation of the Company's common shares.

Details of warrants outstanding as at August 31, 2012 are as follows:

Number of Warrants	Exercise Price	Expiry Date
6,602,765	$ 0.135	July 20, 2013
437,144	0.14	July 20, 2013
11,000,000	0.14	June 1, 2014
742,500	0.14	June 1, 2014
18,782,409		

(EXPRESSED IN CANADIAN DOLLARS - UNAUDITED)

10. RESERVES

Share-based payment reserve

The share-based payment reserve records share options recognized as share-based payments expense until such time that the share options are exercised, at which time the corresponding amount will be transferred to share capital.

Balance, February 28, 2011	$	122,713
Share based compensation expense - granted July 22, 2011		175,350
Share Option expired		(72,462)
Balance, February 29, 2012	$	225,601
Share based payments - granted August 1, 2012		12,929
Share based payments - granted August 22, 2012		5,387
Balance, August 31, 2012	$	243,917

Warrant reserve

The fair value of the common shares issued in the private placement was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrant reserve. If the warrants are exercised, the related amount is reclassified as share capital. If the warrants expire unexercised, the related amount remains in warrant reserve.

Balance, February 28, 2011 and February 29, 2012	$	-
Agent warrants granted - June 1, 2012		52,573
Balance, August 31, 2012	$	52,573

11. CAPITAL DISCLOSURE

The Company considers its capital structure to include net residual equity of all assets, less liabilities. Capital is comprised of the Company’s shareholders’ equity and any debt that it may issue. The Company’s objectives when managing capital are to (i) maintain sufficient working capital to meet current financial obligations and continue as a going concern; (ii) maintain a capital structure to allow the Company to raise equity funding to finance its capital expenditures and acquisition activities; (iii) maintain creditworthiness and maximize returns for shareholders over the long term; (iv) maintain capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels.

The Company’s financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic circumstances. The capital for expansion was mostly from proceeds from the issuance of common shares. The net proceeds raised will be used to fund the Company’s working capital and exploration activities.

12. FINANCIAL INSTRUMENTS AND RISKS

Fair values

Per IFRS 7, a three-level hierarchy that reflects the significance of inputs used in making fair value adjustments is required. The three levels of fair value hierarchy are as follows:

(EXPRESSED IN CANADIAN DOLLARS - UNAUDITED)

12. FINANCIAL INSTRUMENTS AND RISKS (cont'd...)

Fair values (cont'd...)

a) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
b) Level 2 – Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
c) Level 3 – Input for assets or liabilities that are not based on observable market data.

Financial Instrument Risks

The following table outlines the Company's financial assets and liabilities measured at fair value by level with the fair value hierarchy described above. Assets and liabilities are classified in entirety based on the lowest level of input that is significant to the fair measurement.

As at August 31, 2012		
Assets		
Cash	$	1,251,114
Marketable securities		75,800
Total	$	1,326,914

As at February 29, 2012		
Assets		
Cash	$	389,758
Marketable secuirites		156,325
Total	$	546,083

The Company's cash and marketable securities are valued using quoted market prices in active markets, and therefore are classified as Level 1.

The Company's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk, market risk, liquidity risk and currency risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash and receivables. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. As at August 31, 2012, the Company had working capital of $870,788 (February 29, 2012 - $75,205). The payment terms for accounts payable and accrued liabilities from vendors are generally 30 days or due on receipt.

(EXPRESSED IN CANADIAN DOLLARS - UNAUDITED)

12. FINANCIAL INSTRUMENTS AND RISKS (cont'd...)

Financial Instrument Risks (cont'd...)

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company's marketable securities bear market price risk. The maximum exposure to this risk is equal to the carrying value of the investment.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates. The Company has no significant interest rate risk. As of August 31, 2012, the Company had cash and cash equivalents balance of $863,510 of which $1,251,114 was in a term deposit earning interest at a rate of 1.40% per annum. The Company had no interest-bearing debt.

Foreign currency risk

The Company does not have any assets or liabilities in a foreign currency and therefore is not exposed to foreign currency risk.

13. RELATED PARTY TRANSACTIONS

The amounts due to related parties are amounts due to directors and officers. The balances are unsecured, non-interest bearing and have no specific terms for repayment. Accordingly, the fair value cannot readily be determined. These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As at August 31, 2012, $20,850 (February 29, 2012 - $15,850) was due to directors and officers of the Company for accrued management fees.

	August 31, 2012	February 29, 2012
	- $ -	**- $ -**
Company controlled by CEO	12,000	-
Corporate secretary	-	2,000
Directors	8,850	13,850
	20,850	15,850

(EXPRESSED IN CANADIAN DOLLARS - UNAUDITED)

13. RELATED PARTY TRANSACTIONS (cont'd...)

During the six months ended August 31, 2012 and 2011, the Company entered into the following transactions with related parties:

	August 31, 2012	August 31, 2011
Expenses paid or accrued to directors of the Company, senior officers and companies with common directors and a former director:		
Management and directors fees	$ 51,000	$ 73,500
Professional fees	7,280	4,000
Rent and office	-	9,600
Share-based payments	5,387	187,808
Total	$ 63,667	$ 274,908

During the six months ended August 31, 2012, the Company incurred $51,000 of management fees (August 31, 2011 - $73,500) to officers and directors of the Company.

During the six months ended August 31, 2012, the Company paid $Nil rent an office expenses (August 31, 2011 - $9,600) to a company with a director in common.

During the six months ended August 31, 2012, the Company paid $7,280 accounting fees (August 31, 2011 - $4,000) to a company controlled by the CFO of the Company.

During the six months ended August 31, 2012, the Company granted 125,000 (August 31, 2011 – 1,050,000) options to its directors and officers, and valued at $5,387 (August 31, 2011 – $187,808).

The following share options were granted to management:

	August 31, 2012		August 31, 2011	
	Number of Options	Options Valuation	Number of Options	Options Valuation
Dusan Berka, *President and CEO, Chairman*	-	-	450,000	80,489
Chris F. Staargaard, *Director*	-	-	200,000	35,773
Andrew Lee, *Director*	-	-	200,000	35,773
Gary Musil, *Director, Treasurer, Secretary*	-	-	200,000	35,773
Zara Kanji-Aquino, *CFO*	125,000	5,387	-	-
Total:	125,000	5,387	1,050,000	187,808

Management compensation consisted of the following:

	Six months ended	
	August 31, 2012	August 31, 2011
	- $ -	**- $ -**
Company controlled by CEO	36,000	36,000
CFO	15,000	-
Directors	-	37,500
	51,000	73,500

14. SUPPLEMENTAL CASH FLOW INFORMATION

During the six months ended August 31, 2012, the Company recognized unrealized losses on marketable securities of $80,525, share-based payment of $18,316, warrant reverse of $52,573, and included $8,586 accounts payable in mineral property evaluation and exploration.

During the six months ended August 31, 2011, the Company recognized unrealized loss on marketable securities of $117,050, a loss from share capital distribution of $700,000, and share-based compensation of $187,808. The Company recognized the share-based payment recovery on unexercised share options of $72,462.

15. COMMITMENTS AND CONTINGENCIES

As at August 31, 2012, the Company has consulting and management agreements that can be terminated by the Company by giving 30 days notice. The aggregate amount of these agreements is $8,500 monthly.

On July 31, 2012, the Company has entered a consulting agreement with Windermere Capital Inc. ("Consultant") The Agreement shall commence and become effective on July 1, 2012 and shall terminate 24 months after the signature of the agreement. The Company paid to the Consultant a total of $30,000 which was paid upon receipt of an invoice from the Consultant to the Company.

The Company is in arrears on filing certain of its statutory tax forms. The Company has exposure to late filing penalties and related interest. The Company has included a provision of $9,457 during the year ended February 28, 2011 to accrue for such liabilities. The Company may be required to indemnify flow-through investors for the amount of increased tax payable by the flow-through investor as a consequence of the failure of the Company to incur qualifying exploration expenditures previously renounced to the flow-through investors. Previously renounced and unspent exploration amounts of $335,466 relating to the 2006 flow-through shares offering may be subject to such indemnification. The Company estimates that the potential liability is $311,512 as at February 29, 2012 and has accrued a provision for this, recorded in interest and penalties. The outcome of the amount of actual claims, if any, is contingent on future assessments to the investors.

16. SEGMENTED INFORMATION

The Company currently operates in a single reportable operating segment – the acquisition, exploration and development of mineral properties is in British Columbia and Quebec, Canada. All of the Company's assets and expenditures are located in Canada.

16. SUBSEQUENT EVENTS

Subsequent to the six months ended August 31, 2012, the letter of intent signed with Yuntone was terminated by mutual consent and shall have no further force or effect. The Company returned the payment of $25,000 to Yuntone on October 9, 2012.

On October 23, 2012, 62,500 options exercisable at $0.40 per share were expired.